

## Civil War Book Review

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### Other People's Money: How Banking Worked In The Early American Republic

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## Review

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**Murphy, Sharon Ann** *Other People's Money: How Banking Worked in the Early American Republic*. Johns Hopkins University Press, \$19.95 ISBN 9781421421759

### How Banks Worked (and Sometimes Did Not Work) in the Early Republic

Trying to understand the workings of American banking and finance before the Civil War can be baffling. There was no central bank and no national currency, but rather a mostly decentralized system of banks of varying sorts that circulated thousands of different paper banknotes throughout the country. Counterfeiting was widespread, banknote values fluctuated wildly and varied from place to place, and chains of credit and debt created through promissory notes and bills of exchange easily became byzantine. Fundamental instability was endemic to the economy, and only the exigencies of the war itself led policymakers to craft an economic order that began to resemble that of the modern world.

Anyone who has ever tried to convey the complexity of these circumstances in a survey lecture knows the looks of befuddlement and boredom on the faces of undergraduates, and when pressed more than a few historians would surely admit that they do not entirely understand how the economy worked in the early republic either. But banking and finance were crucial to the development of the United States, and they shaped the lives, fortunes, and politics of millions of people, which makes Sharon Murphy's *Other People's Money* a very welcome contribution. Part of a series from Johns Hopkins University Press designed to explain "how things worked" in American history, *Other People's Money* traces the evolution of the American financial system in a fairly clear and straightforward manner from the age of the American Revolution through the aftermath of the Civil War. In so doing, it provides a historical and mechanical primer that experts in the field may not need but that anyone ranging from undergraduates to scholars with limited economic literacy will find invaluable.

Befitting a work designed to explain the basics, Murphy begins in the era of European exploration, laying out elemental components of a barter economy, the emergence of merchants and of money as a stable store of value, the significance of specie and of fiat currency, and the mechanics of inflation and deflation. A quick tour of the financing of the Revolutionary War, the economic chaos that followed it and that helped create the need for the Constitution, and the financial plans of Alexander Hamilton leads directly into a discussion of early banks.

For all that the Constitution helped provide some economic authority to a central government that could act on behalf of the entire nation, Murphy observes that federalism and constitutional ambiguity set the stage for financial bedlam in the early republic. Under the Constitution, the federal government could issue specie but had no explicit power to charter a bank, while states could charter corporations but had no power to issue money of any kind. In the event, Congress used the elastic clause of the Constitution to charter a National Bank that held federal funds, states issued charters for banks that printed money, and within the space of two generations Americans had created a sprawling patchwork system of banks and currency. On one hand, that system expanded the money supply, facilitated all sorts of economic transactions, and enabled the financing of internal improvements and western expansion. On the other hand, frauds and failures were not uncommon, it was challenging and sometimes impossible to sort good money from bad, and both the outsized influence and the very idea of a national bank were controversial.

Financial panics hardly instilled public confidence in banks. Even as Murphy delineates the various structural and global factors that contributed to contractive meltdowns such as the Panic of 1819, she acknowledges that the difficulties of knowing whether bank loans were sound or speculative, bankers honest or corrupt, and investments safe or insecure yielded an environment where distrust was easy to come by and predictability hard to find, making panics in some measure “a self-fulfilling prophecy” (p. 78). Following the disaster of 1819, some states instituted reforms designed to prevent the recurrence of such events, and the Second National Bank under the directorship of Nicholas Biddle did institute something resembling real regulatory control of the banking system. But many Americans remained deeply skeptical of banks regardless. Those skeptics found a champion in President Andrew Jackson, who achieved his personal mission of destroying the Second National Bank at the expense of the stability that institution provided.

The result was the Panic of 1837, and the banking system became more disorganized in its wake than it had ever been before. No one would deny the significance of the demise of the Second National Bank, but Murphy makes a strong case that we have underrated that significance and that it was central to the history of nineteenth-century America. In its absence, the national economy entered a multiyear freefall followed by stagnation that only truly lifted with the California gold rush. Moreover, the panic served as a turning point for experimentation in the banking system. Some states were so scarred by the panic that they simply banned banking altogether, but most looked for new banking models that could make claims to providing stability. This was the age of so-called free banking, which in an antimonopoly spirit allowed for general incorporation of banks (and for occasional outright frauds known as “wildcat banks”). Some places saw the proliferation of savings banks that offered financial services to members of the working class, or of building and loan banks that worked especially for members of the middle class. It was in this era as well that investment banks started coming into play to facilitate sales of stocks and bonds for states and corporations alike. On the whole, even as there was significantly greater disarray in the banking and financial system after 1837, processes of diversification, sophistication, and modernization took place that paralleled and advanced those trends in the economy more broadly, and that pointed toward the financial expansion of the post-Civil War era.

Importantly, however, the post-1837 era was not an era of unregulated banking. Simultaneous to the spread of trends like free banking were more stringent government regulations of banks put in place to try and avoid yet another bust. Some states crafted strictly controlled public-private hybrid systems of banks. Others saw the institution of safety funds, bank inspections, banking commissions, higher reserve requirements, and check clearinghouses. The federal government turned to a variant of Martin Van Buren’s Independent Treasury system that created subtreasuries throughout the country to hold federal money and that created deflationary pressures that somewhat contained unwise speculation. Business cycles could not be controlled altogether, but instituted reforms helped stave off total systemic collapse when the next downturn came in 1857.

Ultimately, it was the Civil War itself that truly transformed the American financial system. In the Confederacy, the course of the war and policy choices by Confederate officials proved disastrous for the banking system specifically and for the economy more generally. The Union, meanwhile, drew on some of the

experiments of the antebellum era, but both bankers such as Jay Cooke and Treasury officials such as Salmon Chase made clear that extensive reform would be needed to sustain the bonds and greenbacks issued to fund the war effort. By the end of the war, the United States would have a uniform currency, state banknotes were set down a course toward disappearance, and a system of federally chartered and federally regulated banks came to exercise outsized sway over the national economy, though the United States would not have a true central bank until the creation of the Federal Reserve in 1913.

One critique of *Other People's Money* might be that the narrative centers overwhelmingly on politics and the law at the expense of explaining the impact of the changing financial and banking system on American culture and especially on the lives of individual Americans. Thousands thrilled to eras of expansion, fretted that banks were little more than scams and gambling operations, suffered when economic bubbles burst, and raged for policymakers to exact revenge against the moneymen on their behalf. More of their voices would have enlivened a book that can sometimes be dry even as it is deeply informative. In addition, some greater attention to the significance of slavery in the development of the banking system would have been welcome. The subject is hardly absent, but it could have been integrated more thoroughly, particularly in light of the growing historiography on slavery's relationship to capitalism.

Nonetheless, Murphy has provided what should be the go-to source for anyone looking to understand the differences among savings banks, investment banks, and commercial banks in pre-Civil War America; to know what it meant for banks to provide discounts on commercial paper; and to know what terms like fractional reserve, independent treasury, bimetallism, shinplasters, wildcat banks, and bills of exchange meant. Oh, and if you are wondering how exactly Andrew Jackson ended up on the twenty-dollar bill, Murphy answers that too. Read the epilogue.

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